



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 92-036

January 22, 1992

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF DEFENSE (FORCE MANAGEMENT
AND PERSONNEL)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Internal Controls over DoD
Major Suggestion Awards (Project No. 1FG-5019)

Introduction

This final report on the Audit of Major Suggestion Awards is provided for your information and use. The audit was requested by the Assistant Secretary of Defense (Force Management and Personnel) because the Office of Personnel Management (OPM) has proposed a revision to the award scale for suggestions. If adopted, the revision could substantially increase the number of cases with awards over \$10,000. The audit was made from September through October 1991. The overall objective of the audit was to determine whether existing internal controls ensured the integrity of major suggestion awards (cash awards in excess of \$10,000). Specifically, we determined whether:

- o controls were in place to protect against collusion;
- o DoD Components had justified awards;
- o awards were properly calculated; and
- o suggestions resulting in awards were adoptable and ultimately adopted.

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Discussion

Adequate internal controls were in place at the Office of the Secretary of Defense, the Defense Logistics Agency, and the Military Departments to ensure the integrity of major suggestion awards. Specifically, internal controls were adequate to protect against collusion. Three to ten independent panels reviewed suggestions before approving major suggestion awards. The number of reviews depended on the organizational level at which the suggestion was initiated. For example, if a suggestion award was submitted at an Air Force base, the suggestion was reviewed at the unit or base; the Major Air Command; Headquarters, U.S. Air Force; the Office of the Secretary of Defense; and OPM. Each level within the Air Force may review the suggestion more than once. If a suggestion originates in the Office of the Secretary of Defense, three panels, including OPM, must review it.

In addition, all 34 major suggestions awarded in FYs 1990 and 1991 were justified by first-year savings. According to DoD Directive 5120.16, "Department of Defense Incentive Awards Program: Policies and Standards," July 15, 1974, award computations are generally based on percentages of the estimated first-year benefit to the Government. For example, an Air Force employee received a \$13,440 award for suggesting the use of competitive procurement methods that resulted in a first-year savings of approximately \$2 million. The award computation correctly included \$3,700 for the first \$100,000 of first-year benefits and .5 percent of the benefits over \$100,000. The computation was accurate and equaled the monetary award the employee received.

All 34 awards were evaluated by cost analysts and were accurately calculated by personnel from the Office of the Comptroller, Department of Defense or Military Department auditors. All major suggestion awards were supported by adopted suggestions.

Internal Controls

We reviewed the 34 major suggestion awards issued by DoD Components for FYs 1990 and 1991. Those awards totaled about \$580,000. Our review of internal controls consisted of interviews with key management personnel from the Office of the Secretary of Defense, the Defense Logistics Agency, and the Military Departments. We verified signatures on applications for awards, reviewed approval procedures of the independent committees, verified the dates that suggestions were adopted, and reviewed calculations of tangible and intangible benefits. Additionally, we verified that awarded suggestions had been adopted. The internal controls over DoD's major suggestion awards were found effective; our audit disclosed no weaknesses.

Scope of the Audit

This program audit reviewed procedures and controls for the 34 major (over \$10,000) suggestion awards for the Office of the Secretary of Defense, the Defense Logistics Agency, the Army, the Navy, and the Air Force for FYs 1990 and 1991. The total value of the awards was about \$580,000. This audit was made from September through October 1991 in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Enclosure 1.

Background

United States Code (U.S.C.), title 5, sections 4501 and 4506, give the heads of Departments and Defense agencies authority to establish incentive award military programs as part of their performance management plans. U.S.C., title 10, section 1124, gives the Secretary of Defense the authority to approve awards for military personnel. DoD Directive 5120.15, "Authority for Approval of Cash Honorary Awards for DoD Personnel," August 13, 1985, delegates authority to DoD Components to approve and pay civilian and military awards up to \$10,000. Awards over \$10,000 for civilian personnel must be reviewed by the Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)). If the suggestor merits an award, the ASD(FM&P) forwards the suggestion to OPM for final approval. The ASD(FM&P) approves or disapproves awards up to \$25,000 for military personnel.

Prior Audits and Other Reviews

Neither the United States General Accounting Office nor the Inspector General, DoD, made any prior audits of DoD major suggestion awards.

Management Comments

We provided a draft of this report to the Assistant Secretary of Defense (Force Management and Personnel) on December 3, 1991. Because there were no recommendations, no comments were required of management, and none were received.

The courtesies extended to our staff are appreciated. Please contact Mr. F. Jay Lane at (703) 693-0430 (DSN 223-0430) or Mr. Richard A. Levine at (703) 693-0461 (DSN 223-0461) if you have any questions concerning this report. Distribution of this report is shown in Enclosure 2.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

Office of the Inspector General

Report No. 92-036
PROJECT NO. 1FG-5019

January 22, 1992

REPORT ON THE AUDIT OF INTERNAL CONTROLS OVER DOD
MAJOR SUGGESTION AWARDS

EXECUTIVE SUMMARY

Introduction. This audit was requested by the Assistant Secretary of Defense (Force Management and Personnel). Overall, 34 major suggestion awards over \$10,000 each were granted by the Office of the Secretary of Defense, the Defense Logistics Agency, and the Military Departments during FYs 1990 and 1991. The total value of the suggestion awards was about \$580,000.

Objectives. The primary audit objective was to determine whether existing internal controls ensured the integrity of major suggestion awards.

Audit Results. The Office of the Secretary of Defense, the Defense Logistics Agency, and the Military Departments had adequate internal controls to ensure the integrity of major suggestion awards. Specifically:

- o Three to ten independent panels were required to review awards prior to approval.

- o All awards were justified by first-year savings.

- o All awards were evaluated by cost analysts and were accurately calculated by personnel from the Office of the Comptroller of the Department of Defense or Military Department auditors.

- o Suggestions for which the awards were granted were adopted.

Management Comments. Since this report contains no findings or recommendations, written comments were not required of management, and none were received.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Force Management and Personnel), Washington, DC

Department of the Army

Office of the Chief of Staff of the Army, Management Directorate, Washington, DC

Department of the Navy

Office of Civilian Personnel Management, Arlington, VA

Department of the Air Force

Air Force Management Engineering Agency, San Antonio, TX

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA

Non-DoD Federal Organization

Office of Personnel Management, Washington, DC

REPORT DISTRIBUTION

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Assistant Secretary of the Navy (Financial Management)
Navy Office of Civilian Personnel Management

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Air Force Management Engineering Agency

Defense Logistics Agency

Headquarters, Defense Logistics Agency

Non-DoD Activities

U.S. Office of Personnel Management, Washington, DC
U.S. Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical
Information Center
Department of Treasury

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
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House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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D. Currently Applicable Classification Level: Unclassified

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